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CC96-45

APR 29 1997

EX PARTE OR LATE FILED

Federal Communications Commission
Office of Secretary

April 28, 1997

Two North Second Street
Plaza A
San Jose, CA 95113Main 408 881-2000
Sales 1 800 NETCOM1
Fax 408 881-2920
www <http://www.netcom.com>The Honorable Reed Hundt, Chairman
Federal Communications Commission
1819 M Street N.W.
Washington DC 20554

via email, fax, and postal delivery

Dear Mr. Hundt:

I am writing to you about the access reform proposed rulemaking now underway at the Commission. We've been informed that the Commission is considering a \$9.50 per business line per month subscriber line charge in lieu of per minute charges assessed on lines used to connect a customer's modem to NETCOM's internet. I write to tell you what a detrimental effect that would have on our US business.

As you know, NETCOM is a significant network provider in the US. We operate an ATM backbone that connects over 200 access points in all but 6 states. We provide communications solutions for small and medium-sized businesses, including high-speed connectivity, website hosting, and dial-up access services. NETCOM also provides a range of value-priced Internet services for professionals, including reliable local access, software options, personalized services, and customer support. NETCOM is a pioneer in offering tiered services, where the customer chooses the appropriate level of service and support to meet his needs.

At the completion of our successful first quarter, we reported record revenue of \$39 million. This is a 7% increase over the fourth quarter of 1996. The company achieved positive EBITDA (earnings before interest, taxes, depreciation and amortization) from its US operations of \$2.7 million. These earnings result in a net loss of \$9.2 million or \$0.79 per share. Our expenses in operating our robust US network include paying for approximately 50,000 business lines at tariffed rates which average around \$38 per line per month. These costs exclude the costs of operating the NETCOM backbone; the costs of leasing the sites which house our hubs and points and presence; the maintenance costs paid to support equipment failure; the purchase, installation and preparation costs of equipment needed to operate the network; and all personnel costs.

You can see that a \$9.50 charge per line per month would result in an additional costs of \$475,000 per month. If we add that into our first quarter figures, it raises our operational loss from \$10.5 million to \$11.9 million. NETCOM would not be able to absorb that amount without raising prices. Our customers can not afford this charge.

As you are aware, the public capital markets are all but closed to independent Internet providers because investors are concerned about the potential for profitability in this industry. By many accounts, NETCOM is the company closest to that benchmark. Without additional capital availability in the future, our ability—and the ability of our independent competitors—to innovate will be severely constrained. We think this is detrimental to the Commission's objectives of advancing the most innovation and lowest cost communications services to the most Americans. Most Internet innovations and advances have been provided by small and medium cap companies; it would be harmful to deter that innovation.

Thank you and the Commission for your continuing attention to matters which help us integrate the Internet into American lives.

Sincerely,

David W. Garrison
Chairman and CEONo. of Copies rec'd
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1

NETCOM Fax

**NETCOM™**

To The Honorable Fred Hundt **From** David W. Garrison
Fax 202.418.0232 **Fax** 408-881-2153
Phone _____ **Phone** _____

Page 1 of 2 Pages**Date** 29 April **Time** 8:40a**Confidentiality Notice**

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Subject**Message****Distribution**

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www <http://www.netcom.com>The Honorable Reed Hundt, Chairman
Federal Communications Commission
1919 M Street N.W.
Washington DC 20554

TO PARTIES OR LATE FILED

RE: Ex parte presentation CC docket 96-45

Dear Mr. Hundt:

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Sincerely,

David W. Garrison
David W. Garrison
Chairman and CEO

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NETCOM Fax

**NETCOM™**

To William Caton **From** David W Garrison
Fax 202 418 0232 **Fax** 408-881-3153
Phone **Phone** 408-881-3227 (glu)

Page 1 of 2 **Pages** **Date** **Time**

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Subject

Re: Ex Parte Presentation

Message

CC Docket 96-45

Distribution

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Main 408 881-2000 Sales 1 800 NETCOM1 Main Fax 408 881-2920
www.netcom.com

April 29, 1997

William Caton
Federal Communications Commission
1919 M Street N.W.
Washington DC 20554

RE: Ex parte presentation CC docket 96-45

Enclosed for inclusion in the above referenced docket is a letter from David Garrison, Chairman and CEO of NETCOM On-Line Communication Services, Inc.

Thank you.

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Chairman and CEO

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